

SENATE BILL REPORT

SB 6532

As of January 31, 2018

Title: An act relating to creating a Washington affordable housing tax credit program.

Brief Description: Creating a Washington affordable housing tax credit program.

Sponsors: Senators Mullet, Angel and Saldaña.

Brief History:

Committee Activity: Financial Institutions & Insurance: 1/30/18.

Brief Summary of Bill

- Establishes the Washington Affordable Housing Tax Credit program authorizing state credits for low-income housing developments.
- Authorizes \$7 million in annual Washington Affordable Housing tax credits with respect to taxes imposed for the insurance premiums tax or the business and occupation (B&O) tax.

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

Staff: Jeff Olsen (786-7428)

Background: Washington's major business tax is the B&O tax. The B&O tax is imposed on the gross receipts of business activities conducted within the state, without any deduction for the costs of doing business. The insurance premium tax is a gross receipts tax that is similar to the B&O, and is levied against an insurer's premium volume at 2 percent.

As part of the Tax Reform Act of 1986, the United States Congress created the Low-Income Housing Tax Credit (LIHTC) Program to promote the development of affordable rental housing for low-income individuals and families. The LIHTC, rather than a direct subsidy, encourages investment of private capital in the development of rental housing by providing a credit to offset an investor's federal income tax liability.

The Washington State Housing Finance Commission (HFC) issues below-market-rate, tax-exempt bonds, and federal housing credits to fund housing and nonprofit facilities across Washington. The HFC's 9 percent LIHTC allocates federal income tax credit to developers

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to encourage the construction and rehabilitation of affordable multi-family housing. Housing credit in the 9 percent LIHTC Program is allocated through an annual competitive process in which projects are evaluated and scored according to the HFC's established criteria.

Summary of Bill: Any qualified taxpayer that owns an interest, direct or indirect, in a qualified low-income housing project is allowed a tax credit with respect to insurance premiums or B&O taxes. The HFC may allocate credits to the owner of a qualified development by issuing an allocation certificate. The HFC must determine eligibility for a credit and allocate credits in accordance with standards established for the federal LIHTC.

Allocation certificate amounts are determined by the HFC based on the need for the credit and the amount of the federal tax credit. The credit must be earned over a six-year credit period. Qualified developments must comply with certain federal tax credit requirements and other federal requirements for 15 taxable years or longer. The amount of state tax credits may not exceed the amount of federal tax credits. Credits may be taken against taxes due for each taxable year, and credits may be carried forward up to 11 years following the tax year in which the allocation was made. The HFC may not allocate more than \$7 million in credits annually. If any federal tax credits are required to be recaptured, the taxpayer claiming Washington affordable housing tax credits must also recapture a proportional share of state credits. Credit owners must file a copy of their allocation certificate with their state tax return.

The HFC must submit a report to the legislature by December 31 for each allocation year specifying the number of qualified developments and the total number of units supported by each development. The Washington Affordable Housing Tax Credit program expires January 1, 2029.

Appropriation: None.

Fiscal Note: Requested on January 26, 2018.

Creates Committee/Commission/Task Force that includes Legislative members: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony: PRO: The state program is designed to entice investors to take advantage of existing federal tax credits that are available for low income housing projects. Credits from the federal 4 percent program are not always awarded, and some projects need additional financing, and that is where the state program could fill that gap. Other states have successfully used a state program to match with the federal tax credits. The federal 9 percent program is highly competitive, with many applicants being turned away due to the competition for the federal tax credits. The state has a huge housing affordability problem and needs to do more to promote the development of low-income housing.

Persons Testifying: PRO: Kim Herman, Washington State Housing Finance Commission; Mark Scheffel, Advantage Capital; Carl Schroeder, Association of Washington Cities.

Persons Signed In To Testify But Not Testifying: No one.